

April 21, 2011

The Honorable John P. Kibbie  
President of the Senate  
State Capitol  
Des Moines, Iowa 50319

Dear Mr. President:

I hereby transmit Senate File 209, an Act relating to public funding and regulatory matters by making appropriations, providing for certain additional depreciation allowances, increasing the state earned income tax credit, and including effective date and retroactive applicability provisions.

Senate File 209 made supplemental appropriations that were necessary as a result of past bad budgeting practices. For example, the current shortfall in the funds available to pay the state's indigent defense bills is the result of actions taken during the 2010 Session of the General Assembly wherein the Governor and General Assembly approved a budget for indigent defense that purposely underfunded this program by nearly \$20 million. This decision was made with the full knowledge the 2011 General Assembly would be forced to take action to provide supplemental funds to the State Public Defender's office for this purpose. Similar poor budgeting practices by the General Assembly and Governor in 2010 necessitated \$84 million dollars in cuts that were made in January of this year. Senate File 209 makes supplemental appropriations in areas where these cuts would affect the health and safety of Iowans.

Senate File 209 is, therefore, signed on this date with the following exceptions, which I hereby disapprove.

I am unable to approve the item designated as Division I. The item vetoed language in Division I of Senate File 209 would couple Iowa's tax law with that portion of the federal short term stimulus legislation which allows businesses to take additional depreciation related deductions, often referred to as "bonus depreciation". This short term measure is estimated to reduce revenue to the state general fund by over \$27 million in Fiscal Year 2011, over \$113 million in Fiscal Year 2012 and over \$35 million in Fiscal Year 2013. Any temporary economic stimulus effect of bonus depreciation is primarily accomplished through the federal tax code. Iowa should

instead focus its energies on improving our state's long term competitive tax position for new job creation. With our limited budget, that is best accomplished by reducing our commercial property taxes which are second highest in the country and our marginal corporate tax rate which is the highest in the nation. The short term and misdirected approach to policy contained in Senate File 209 will not improve our tax climate for new jobs in Iowa.

I am committed to continuing a tax and jobs policy discussion with the House and Senate to adopt a package of tax reductions that stimulate our long-term economic growth and job creation. Acceptance of the provisions in Division I would prevent our ability to consider other more effective options and I disapprove these provisions in order to allow our tax policy discussions to continue.

I am unable to approve the item designated as Division II. The item vetoed language would increase the Earned Income Tax Credit from the current level of 7.0% of the federal credit to 10.0% of the federal credit. This change is estimated to reduce revenue to the state general fund by \$28.5 million for Fiscal Years 2011-2013.

As earlier indicated, it is my desire to approach tax policy in a comprehensive and holistic manner. As such, I urge members of the House and Senate to continue to work with my office on an overall tax reduction package that both fits within our sound budgeting principles while reducing those taxes that are impeding our state's ability to compete for new business and jobs.

For the above reasons, I respectfully disapprove these items in accordance with Amendment IV of the Amendments of 1968 to the Constitution of the State of Iowa. All other items in Senate File 209 are hereby approved as of this date.

Sincerely,

TERRY E. BRANSTAD  
Governor